



Investment Office

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AGENDA ITEM 5c

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Additional Investment in Central Valley Fund
- II. PROGRAM:** Alternative Investment Management (AIM) Program
- III. RECOMMENDATION:** Staff recommends increasing CalPERS' commitment in the Central Valley Fund LP from \$10 million to \$40 million.

IV. ANALYSIS:

In October 2004, the AIM Unit authorized a \$10 million commitment to the Central Valley Fund LP (the "Fund" or the "Partnership"). The commitment was authorized under AIM's delegation of authority. Investment Committee approval is required to increase the commitment because CalPERS' investment in the fund would exceed the percentage of fund limitation established in AIM's delegated authority. Under delegated authority, the Senior Investment Officer is authorized to commit up to 25% in an emerging manager fund. If this recommendation is approved, CalPERS' commitment to the Central Valley Fund would represent approximately 70% of the fund. It should be noted that this is a small, emerging manager fund with a target fund size of \$55 million.

This investment fits with AIM's strategy of investing in underserved markets throughout California. The Fund plans to make investments in small businesses located primarily in the California Central Valley and contiguous areas of California. The Central Valley has traditionally been overlooked by other

investors, and Staff believes the Fund is uniquely positioned to be the dominant player in the region given its local knowledge, dedicated resources and extensive network in the Valley. The Fund will invest in established companies in a variety of industries, but will avoid real estate and riskier venture capital start-ups. The General Partner consists of individuals with significant business experience in investing and managing emerging and middle-market companies. A summary review of the investment opportunity (contained in Attachment 1) was prepared by Hamilton Lane, the consultant on this transaction. The full due diligence memorandum prepared by Hamilton Lane is available to members of the Investment Committee upon request.

Since the initial commitment to the Fund was made, several things associated with this transaction have transpired which have resulted in Staff's recommendation to increase CalPERS' commitment. First, the Principals of the Fund have developed a solid pipeline of potential investments in the Central Valley, including active transactions that are currently pending. Second, the Partnership has added another seasoned investment professional to its investment team, providing additional bandwidth and networks on the ground in the Valley. Third, as indicated in the Hamilton Lane write-up, the General Partner originally intended on capitalizing the Fund with a combination of equity from investors like CalPERS and debt issued by the Small Business Administration (SBA). However, the General Partner has decided not to pursue the debt financing from the SBA as a result of delays with the SBA process. The delays have prevented the Fund from executing its business plan, including completion of pending transactions. This has opened up the opportunity for CalPERS to increase its investment in the Fund.

The General Partner will be available to make a brief presentation upon the Investment Committee's request. Staff, Hamilton Lane, and the General Partner will be available to respond to any questions the Investment Committee may have.

V. STRATEGIC PLAN:

Goal VIII, manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions and Goal IX, achieve long-term, sustainable, risk-adjusted returns.

VI. RESULTS/COSTS:

If approved, this agenda item would result in an incremental \$30 million commitment to the Central Valley Fund.

Prepared by: _____
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